Saskatchewan Transportation Company

First Quarter Report 2009

2009 1st Quarter Corporate Reporting

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Management Discussion and Analysis

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations in the first quarter of 2009. From a management perspective, it highlights the primary factors that impacted our operations and the financial results of the Company over the past three months.

This MD&A compares the operational outcomes in the first quarter of 2009 to the corresponding quarter in the previous year (first quarter of 2008) and to the anticipated financial position of the Company over the full year. It also discusses any emerging issues that will have an impact on the Company's fiscal position.

Passenger Services:

In the first quarter of 2009, STC coaches traveled approximately 785,000 miles, serving 290 Saskatchewan communities. This is an increase of seven (7) from the previous year end results and includes new communities served on the La Loche – Prince Albert route effective March 2009.

Revenues from passenger operations in this quarter were $1,773,000, down from $1,975,000 in revenues reported in the first quarter of 2008. Expenses associated with operating passenger services were $2,733,000, up from the 2008 figure of $2,513,000.

Operating losses for passenger services in the quarter were $960,000, compared to a loss of $538,000 in the first quarter of 2008.

In 2008, Canada's bus industry was impacted by an unprecedented tragic event on a Greyhound bus travelling in Manitoba. The industry, including STC, responded with new security measures, but experienced reductions in ridership. STC has lost approximately 8.5% of its ridership since this July 31, 2008 incident. Total ridership for this quarter was 63,267, compared to 71,616 in the first quarter of 2008, a decrease of approximately 12%.

Express Service:

Through its network of close to 200 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the first quarter of 2009, revenues from express operations were $1,523,000, up from the revenues of $1,424,000 reported in the first quarter of 2008. Express operating expenses amounted to $1,342,000, up from the 2008 first quarter expenses of $1,263,000.

Overall, profits for freight operations amounted to $181,000, compared to a profit of $161,000 in the first quarter of 2008.

STC's express service tends to be somewhat seasonal. It is anticipated express revenues will increase in the remaining quarters when the farming industry becomes more active.

Maintenance Services:

STC operates two service garages, one in Saskatoon for major bus servicing, and one in Regina for routine serving and maintenance. In addition, the Company uses these facilities to perform maintenance work for other bus companies, as well as to store vehicles for other companies.

The expenses for maintenance services in the first quarter of 2009 amounted to $919,000, an increase compared to $878,000 in the first quarter of 2008.

Financial Summary:

Overall, STC's revenues for the first quarter of 2009 amounted to $3,544,000, compared to $3,658,000 in the first quarter of 2008. Expenses were $6,504,000, compared to $5,906,000 in 2008. The Company's loss before grants for the quarter was $2,960,000, compared to $2,248,000 in the first quarter of 2008.

STC has been approved for an operating grant of $7.8 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. Current projections for the year, based on the first quarter, indicate that the Company will require the full amount of grant funding.

In this first quarter, STC drew down $2,250,000 of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of this quarter, the Government's equity in STC was $9,685,000 compared to $9,840,000 in the first quarter of 2008.

Future Accounting Changes - International Financial Reporting Standards (IFRS):

In February, 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The CICA is currently deliberating the definition of publicly accountable enterprises as it applies to government entities including the Saskatchewan Provincial Crown Corporations. At this time the final outcome of these deliberations is not determinable and therefore the need for STC to adopt IFRS has not been firmly established. However, given the considerable effort

required to prepare for the adoption of IFRS within the communicated timelines, STC is proceeding under the assumption that adoption of IFRS will be required.

STC has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan which include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor was engaged to assist with the development of this plan and performed a detailed review of major differences between current Canadian GAAP and IFRS.

A project team has been created and has completed an initial assessment of those international financial reporting standards with the highest potential for impact. Based on the analysis to date, the most significant areas of difference are related to accounting for property, plant and equipment, leases, impairments, and financial statement disclosures. At this time, the impact on STC's processes, systems, internal controls over financial reporting and disclosures, future financial position, and results of operations is not reasonably determinable. Draft business impacts and IFRS financial statements are anticipated in the second half of 2009.

As part of the IFRS implementation, STC plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Saskatchewan Transportation Company

Statement of Financial Position

(unaudited - thousands of dollars)

	As at March 31, 2009	As at December 31, 2008
Assets		
Current		
Cash	$ 1,457	$ 2,676
Accounts receivable	1,105	1,560
Inventories	378	383
Prepaid expenses	451	437
	3,391	5,056
Property, plant and equipment	40,288	40,523
	$ 43,679	$ 45,579
Liabilities and Province's Equity		
Current		
Accounts payable and accrued liabilities	$ 2,135	$ 3,324
Deferred capital grant	31,859	32,365
Province of Saskatchewan's Equity		
Contributed Surplus	465	465
Retained earnings	9,220	9,425
	$ 43,679	$ 45,579

Saskatchewan Transportation Company

Statement of Operations and Retained Earnings

(unaudited - thousands of dollars)

	Three months ended March 31	
	2009	**2008**
Revenue		
Express services	$ 1,523	$ 1,424
Passenger services	1,773	1,975
Other	237	259
Gain on disposal of property, plant and equipment	11	-
	3,544	3,658
Expenses		
Operating	4,994	4,654
Administration	854	765
Amortization	656	487
	6,504	5,906
Loss before the following	(2,960)	(2,248)
Operating grant	2,250	1,500
Capital grant	505	338
Net loss	(205)	(410)
Retained earnings, beginning of period	9,425	10,250
Retained earnings, end of period	$ 9,220	$ 9,840

Saskatchewan Transportation Company

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended March 31	
	2009	**2008**
Operating Activities		
Net loss	$ (205)	$ (410)
Items not involving cash:		
Amortization	656	487
Gain on disposal of property, plant and equipment	(11)	-
Recognition of capital grant	(505)	(338)
Net change in non-cash working capital	(744)	(1,355)
Cash used in operating activities	(809)	(1,616)
Investing Activities		
Additions to property, plant and equipment	(441)	(1,912)
Proceeds on disposal of property, plant and equipment	31	-
Cash used in investing activities	(410)	(1,912)
Financing Activities		
Capital grant received	-	3,100
Cash provided by financing activities	-	3,100
Decrease in cash	(1,219)	(428)
Cash, beginning of period	2,676	1,617
Cash, end of period	$ 1,457	$ 1,189

1. Basis of Presentation and Significant Accounting Policies

The interim financial statements of the Saskatchewan Transportation Company (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual report for the year ended December 31, 2008.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2008.

2. Seasonal Nature of Express Revenues

Historically, STC's express service tends to be seasonal with the first quarter being slightly lower and the fourth quarter being slightly higher than the second and third quarters. This is due to the absence of significant agricultural activity in the first quarter and the increase in holiday shipping in the fourth quarter of the year.